

Revenue Review Meeting

February 15, 2006

AGENDA

REVENUE REVIEW MEETING

February 15, 2006



- ❖ OTHER AGENCY REVENUES
- ❖ 2005-07 BIENNIUM
- ❖ 2007-09 BIENNIUM
- ❖ BACKGROUND
- ❖ ADOPTION OF THE OFFICIAL FORECAST

General Fund-State Cash Estimates - Other Agencies
Comparison of February 2006 to November 2005 Forecast
2005-07 Biennium
(Amounts in Millions)

Source/Agency	November 2005 Baseline	Non-Economic Changes	Forecast Changes	February 2006 Baseline	Total Changes
Department of Licensing	\$40.5	\$0.0	-\$0.1	\$40.4	-\$0.1
Insurance Commissioner Insurance Premiums	\$493.5	\$0.0	\$2.3	\$495.9	\$2.3
Liquor Control Board Liquor Profits and Fees	\$95.5	\$0.0	-\$0.2	\$95.3	-\$0.2
Beer and Wine Surtax	\$4.0	\$0.0	\$0.2	\$4.2	\$0.2
Lottery Commission Lottery Revenue	\$1.9	\$0.0	\$0.0	\$1.9	\$0.0
State Treasurer Interest Earnings	\$115.8	\$0.0	\$17.4	\$133.2	\$17.4
Office of Financial Management Other Agencies	\$17.0	\$0.0	\$1.4	\$18.4	\$1.4
Total General Fund-State	\$768.1	\$0.0	\$21.2	\$789.3	\$21.2

General Fund-State Cash Estimates - Other Agencies
Comparison of February 2006 Baseline to Alternative Forecasts
2005-07 Biennium
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$41.6	\$40.4	\$39.2
Insurance Commissioner Insurance Premiums	\$508.2	\$495.9	\$483.5
Liquor Control Board Liquor Profits and Fees	\$97.2	\$95.3	\$93.4
Beer and Wine Surtax	\$4.3	\$4.2	\$4.1
Lottery Commission Lottery Revenue	\$9.2	\$1.9	\$0.0
State Treasurer Interest Earnings	\$171.3	\$133.2	\$102.3
Office of Financial Management Other Agencies	\$28.9	\$18.4	\$7.9
Total General Fund-State	\$860.8	\$789.3	\$730.4
Change from 2/06 Baseline	\$71.5		-\$58.9
Change from 11/05 Baseline	\$92.7	\$21.2	-\$37.7

* Detail may not total due to rounding.

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2005-07 Biennium
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Comparison of February 2006 Baseline to Alternative Forecasts
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* Detail may not total due to rounding.

General Fund-State Cash Estimates - Other Agencies
February 2006 Baseline and Alternative Forecasts
2007-09 Biennium
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$45.2	\$43.9	\$42.5
Insurance Commissioner Insurance Premiums	\$567.3	\$553.5	\$539.7
Liquor Control Board Liquor Profits and Fees	\$97.2	\$95.3	\$93.4
Beer and Wine Surtax	\$4.6	\$4.5	\$4.4
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$190.7	\$128.7	\$76.6
Office of Financial Management Other Agencies	\$21.5	\$9.0	-\$3.5
Total General Fund-State	\$926.5	\$834.9	\$753.2
Difference from Baseline	\$91.7		-\$81.7

General Fund-State GAAP Estimates - Other Agencies
February 2006 Baseline and Alternative Forecasts
2007-09 Biennium
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$45.4	\$44.1	\$42.8
Insurance Commissioner Insurance Premiums	\$567.3	\$553.5	\$539.7
Liquor Control Board Liquor Profits and Fees	\$97.2	\$95.3	\$93.4
Beer and Wine Surtax	\$4.6	\$4.5	\$4.4
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$189.9	\$127.9	\$75.9
Office of Financial Management Other Agencies	23.2	9.2	-4.8
Total General Fund-State	\$927.7	\$834.5	\$751.3
Difference from Baseline	\$93.2		-\$83.2

* Detail may not total due to rounding.

Changes to the General Fund-State Cash Forecast-by Agency
Comparison of the February 2006 to the November 2005 Forecast
2005-07 Biennium
Millions of Dollars

	November 2005 <u>Forecast</u> ¹	Feb. 2006 Forecast <u>Change</u>	Feb. 2006 Non-economic <u>Changes</u>	February 2006 <u>Forecast</u>	Total <u>Change</u> *
Department of Revenue	\$25,567.6	\$137.7	(\$51.6)	\$25,653.7	\$86.1
All other Agencies	\$768.1	\$21.2	\$0.0	\$789.3	\$21.2
Total General Fund-State*	\$26,335.7	\$158.9	(\$51.6)	\$26,443.0	\$107.3

*Detail may not add to totals due to rounding.

1: Adopted by the Forecast Council November 2005.

February 2006

Cash Basis

Alternative Forecasts

2005-07 Biennium

Millions of Dollars

	<u>2005-07 Biennium</u>	<u>Difference From the February 2006 Baseline</u>
February 2006 Baseline (50 %)	\$26,443	
February 2006 Alternative Forecasts		
Optimistic (20 %)	\$27,164	\$721
Pessimistic (30 %)	\$25,754	(\$689)
GCEA*	\$26,358	(\$85)

* Based on the Governor's Council of Economic Advisors Assumptions.

2003-05 and 2005-07 Biennial Balance Sheet Including 2004 and 2005 Supplemental Budgets

General Fund-State

Dollars in Millions

	2003-05	2005-07
RESOURCES		
Beginning Fund Balance	404.6	869.7
November 2005 Forecast	23,388.5	26,335.7
February 2006 Forecast Update		158.9
Non-Economic Adjustment		(51.6)
Current Revenue Totals	23,388.5	26,443.0
2003-04 Fund Transfers, Grants and Other Adjustments	291.7	
2005 Fund Transfers and Other Adjustments	456.6 *	216.5
Spillover Transfer to the Emergency Reserve Account		(353.7)
Total Resources (Includes Fund Balance)	24,541.4	27,175.5
APPROPRIATIONS AND SPENDING ESTIMATES		
2003-05 Appropriations w/Supplemental Budgets	23,671.7	0.0
2005-07 Appropriations		25,952.4
Spending Level	23,671.7	25,952.4
UNRESTRICTED GENERAL FUND BALANCE		
Projected Ending Fund Balance	869.7	1,223.1
Emergency Reserve Account Projected Balance		353.7

* OFM's final December accounting reconciliation for Fiscal Year 2005 results in a \$17 million increase to the November 2005 balance sheet. This net number includes changes to expected federal expenditures in Department of Social and Health Services, and small changes in other agencies.

Department of Revenue General Fund Forecast
2005-07 Biennium; Cash Forecast
Comparison of the February 2006 to the November 2005 Forecast
Millions of Dollars

Source	November 2005 Forecast-1	Non-Economic Change	Forecast Change	February 2006 Baseline-2	Total Change
Retail Sales	\$13,574.3	(\$51.6)	\$74.9	\$13,597.7	\$23.3
Business & Occupation	4,825.6	0.0	13.8	4,839.4	13.8
Use	963.5	0.0	(1.4)	962.1	(1.4)
Public Utility	654.7	0.0	0.5	655.3	0.5
Tobacco Products	19.3	0.0	(0.1)	19.2	(0.1)
Penalty & Interest	257.8	0.0	(4.3)	253.5	(4.3)
Revenue Act Subtotal	20,295.2	(51.6)	83.4	20,327.0	31.8
Liquor Sales/Liter	281.7	0.0	0.8	282.5	0.8
PUD Privilege	80.0	0.0	0.2	80.2	0.2
Cigarette	97.8	0.0	2.5	100.3	2.5
Property (State School Levy)	2,785.0	0.0	(2.5)	2,782.5	(2.5)
Inheritance/Estate	5.5	0.0	0.7	6.2	0.7
Leasehold Excise	43.4	0.0	0.3	43.7	0.3
Fish Excise	4.6	0.0	0.1	4.8	0.1
Real Estate Excise	1,609.0	0.0	51.9	1,660.9	51.9
other	345.0	0.0	1.6	346.6	1.6
Non Revenue Act Subtotal	5,252.0	0.0	55.7	5,307.7	55.7
State Share- Timber Ex.	20.4	0.0	(1.4)	19.0	(1.4)
Total DOR General Fund	\$25,567.6	(\$51.6)	\$137.7	25,653.7	\$86.1

1-Adopted by the Forecast Council, November 2005

2-Adopted by the Forecast Council, February 2006.

Track Record for the 2005-07 General Fund-State Cash Forecast

February 2004 through February 2006

Cash Basis - Millions of Dollars

<u>Date of Forecast</u>	<u>Department of Revenue*</u>	<u>Other Agencies</u>	<u>Subtotal*</u>	<u>Non Economic Changes**</u>	<u>Total Change</u>	<u>Total General Fund-State Cash Basis</u>
February 2004****	\$24,293	\$660				\$24,953
Changes to Forecast						
June 2004	57	4	62	(265) #1	(203)	24,750
September 2004	32	16	48	(22) #2	26	24,776
November 2004	(57)	3	(54)	0	(54)	24,722
March 2005	424	14	438	(275) #3	164	24,885
June 2005	327	14	341	159 #4	499	25,385
September 2005	631	15	646	0	646	26,031
November 2005	306	24	330	(25) #5	305	26,336
February 2006	138	21	159	(52)	107	26,443
June 2006						
Total change***:						
From February 2004	1,858	111	1,969	(480)	1,490	
Percent change	7.6%	16.8%	7.9%	-1.9%	6.0%	

* Excludes legislative, judicial, statutorily required or other major non-economic changes.

** Includes legislative, judicial, statutorily required or other major non-economic changes.

*** Detail may not add to total due to rounding.

**** First official forecast for the 2005-07 biennium.

#1 Change to the forecast due to 2004 legislation.

#2 Revision to fiscal note for high tech tax incentives

#3 Impact of the state Supreme Court decision invalidating the estate tax and lowering the b&O rate on certain meat products

#4 Impact of 2005 legislation, budget driven revenue on the GFS forecast (+\$353.8 million) and shift refunds associated with the two recent court decisions from fy 2005 to fy 2006 (-\$195.0 million)

#5 The combined impact of I-900 on GFS revenue, revision to the impact of the Agrilink court case on GFS revenue, an accounting adjustment and the impact of a 2003 tax law change

Non Economic Adjustments
February 2006 GFS Forecast
Millions of Dollars

	<u>Fy 2006</u>	<u>Fy 2007</u>	<u>05/07 Bien.</u>	<u>Fy 2008</u>	<u>Fy 2009</u>	<u>07/09 Bien.</u>
Insurance companies sales tax on telephone services						
Refunds*		(26.3)	(26.3)	(26.3)		(26.3)
on-going	(8.0)	(17.3)	(25.3)	(18.3)	(20.4)	(38.7)
 Total: non economic changes	 (8.0)	 (43.6)	 (51.6)	 (44.6)	 (20.4)	 (65.0)

*Refunds for prior periods; assumes half will be refunded in fy 2007 and half in fy 2008.

Changes to the General Fund-State Cash Forecast-by Agency
Comparison of the February 2006 to the November 2005 Forecast
2007-09 Biennium
Millions of Dollars

	November 2005 <u>Forecast</u>	Feb. 2006 Forecast <u>Change</u>	Feb. 2006 Non-economic <u>Changes</u>	February 2006 <u>Forecast</u> ¹	Total Change*
Department of Revenue	na	\$0.0	(\$65.0)	\$28,179.7	\$28,179.7
All other Agencies	na	\$0.0	\$0.0	\$848.0	\$848.0
Total General Fund-State*	na	\$0.0	(\$65.0)	\$29,027.7	\$29,027.7

*Detail may not add to totals due to rounding.

1: Initial forecast for the 2007-09 biennium..

February 2006

Cash Basis

Alternative Forecasts

2007-09 Biennium

Millions of Dollars

	<u>2007-09 Biennium</u>	<u>Difference From the February 2006 Baseline</u>
February 2006 Baseline (50%)	\$29,028	
February 2006 Alternative Forecasts		
Optimistic (20 %)	\$30,630	\$1,603
Pessimistic (30 %)	\$27,448	(\$1,579)
GCEA*	\$28,910	(\$117)

* Based on the Governor's Council of Economic Advisors Assumptions.

Department of Revenue General Fund Forecast
2007-09 Biennium; Cash Forecast
Comparison of the February 2006 to the November 2005 Forecast
Millions of Dollars

Source	November 2005 Forecast	Non-Economic Change	Forecast Change	February 2006 Baseline-1	Total Change
Retail Sales	na	(\$65.0)	na	\$15,092.4	na
Business & Occupation Use	na	0.0	na	5,409.2	na
Public Utility	na	0.0	na	1,086.8	na
Tobacco Products	na	0.0	na	688.5	na
Penalty & Interest	na	0.0	na	21.5	na
				285.2	na
Revenue Act Subtotal	na	(65.0)	na	22,583.6	na
Liquor Sales/Liter	na	0.0	na	297.6	na
PUD Privilege	na	0.0	na	90.1	na
Cigarette	na	0.0	na	97.2	na
Property (State School Levy)	na	0.0	na	2,985.5	na
Inheritance/Estate	na	0.0	na	0.0	na
Leasehold Excise	na	0.0	na	48.7	na
Fish Excise	na	0.0	na	5.1	na
Real Estate Excise	na	0.0	na	1,691.0	na
other	na	0.0	na	360.6	na
Non Revenue Act Subtotal	na	0.0	na	5,575.8	na
State Share- Timber Ex.	na	0.0	na	20.3	na
Total DOR General Fund	na	(\$65.0)	na	28,179.7	na

1-Initial forecast for the 2007-09 biennium.

CURRENT ECONOMIC CONDITIONS

U.S.

- ❖ We expect growth to continue to slow, led by weak consumption growth.
- ❖ The cumulative impact of higher interest rates, higher energy prices and cooling in the housing market will slow the pace of consumption growth.
- ❖ The Fed is expected to increase its target rate at the next meeting bringing the federal funds rate to 4.75 percent in March.
- ❖ Core inflation will stay low.

Washington

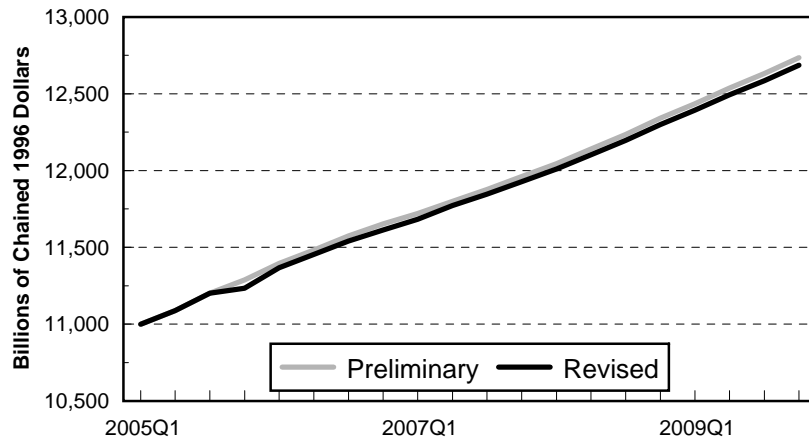
- ❖ Led by construction and aerospace, 80,000 jobs were created in 2005.
- ❖ The housing market has recently shown some signs of weakening.
- ❖ Taxable real estate activity in December 2005 increased 8.9 percent.
- ❖ Revenue Act revenue in the fourth quarter of 2005 grew at 9.5 percent.

Key Economic Variables

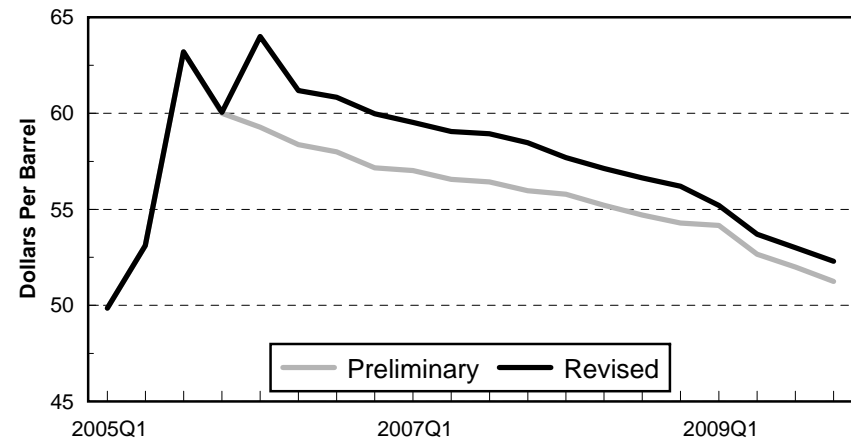
US	2004	2005	2006	2007	2008	2009
Real GDP, %Ch	4.2	3.5	3.3	2.7	2.9	3.2
Consumer Price Index, %Ch	2.7	3.4	2.5	1.8	2.0	1.9
Housing Starts, %Ch	5.2	6.0	-8.1	-4.5	-3.2	-3.6
Nonfarm Payroll Employment, %Ch	1.1	1.5	1.5	1.4	1.1	1.1
Manufacturing Employment, %Ch	-1.3	-0.6	-0.5	-1.0	-0.8	-0.4
Construction Employment, %Ch	3.6	4.4	3.4	1.2	0.7	0.7
Unemployment Rate	5.52	5.06	4.76	4.87	4.95	4.88
Federal Funds Rate	1.35	3.21	4.67	4.75	4.81	5.00
Ten-Year Treasury Yield, %	4.27	4.29	4.80	4.98	5.28	5.55
Oil Prices, WTI (Dollars/barrel)	41.5	56.6	61.5	59.0	56.9	53.6
Consumer Sentiment (Univ. of Michigan)	95.2	88.6	92.9	93.2	92.1	92.4
Washington	2004	2005	2006	2007	2008	2009
Payroll Employment, %Ch	1.6	2.9	2.8	2.2	1.8	1.5
Manufacturing Employment, %Ch	-1.3	3.2	3.8	1.4	0.6	0.2
Aerospace Employment, %Ch	-5.8	7.3	13.7	6.4	3.1	0.3
Construction Employment, %Ch	5.1	7.9	4.6	1.0	0.3	0.3
Services Employment, %Ch	1.7	2.5	2.5	2.4	2.0	1.8
Unemployment Rate	6.23	5.53	5.52	5.63	5.79	5.97
Real Personal Income, %Ch	4.8	0.3	4.9	4.6	4.2	4.3
Seattle CPI, %Ch	1.2	2.8	2.2	2.0	2.1	1.9
Housing Units Authorized by Permit, %Ch	17.0	5.4	-2.1	-3.5	-5.0	-3.5

February Revised vs. Preliminary Forecast

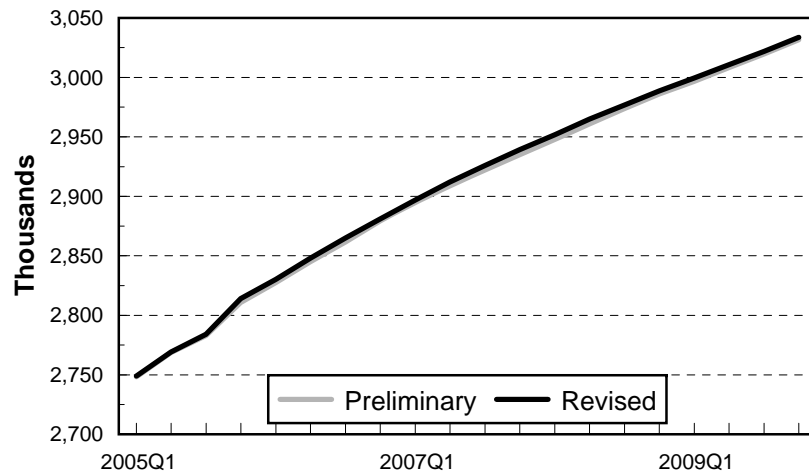
Real GDP



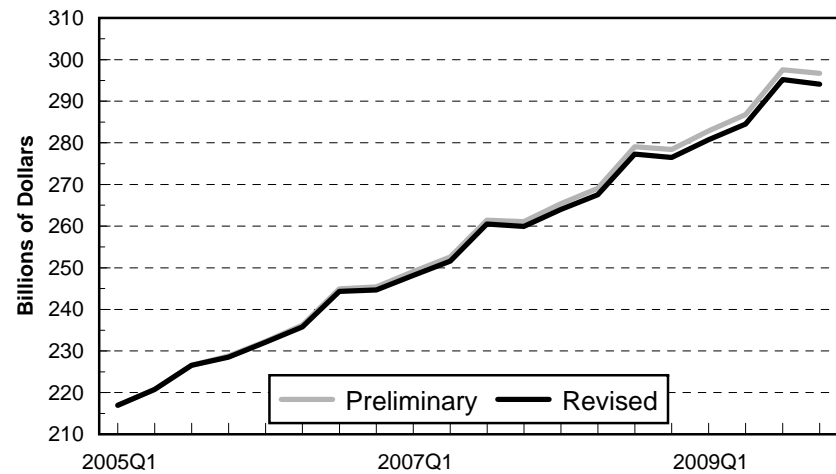
Oil Price (West Texas Intermediate)



Washington Payroll Employment



Washington Personal Income



Revisions to the February 2006 Preliminary Economic Forecast

	<u>2005Q4</u>	<u>2006Q1</u>	<u>2006Q2</u>	<u>2006Q3</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Real GDP, Percent change								
February Revised	1.12	4.84	3.09	3.11	3.26	2.73	2.92	3.19
February Preliminary	3.12	3.83	3.13	3.20	3.43	2.72	2.96	3.24
Difference	-2.00	1.02	-0.04	-0.09	-0.16	0.01	-0.04	-0.06
Oil Price, West Texas Intermediate								
February Revised	60.1	64.0	61.2	60.8	61.5	59.0	56.9	53.6
February Preliminary	60.0	59.3	58.4	58.0	58.2	56.5	55.0	52.5
Difference	0.1	4.7	2.8	2.8	3.3	2.5	1.9	1.0
Implicit Price Deflator, Percent change								
February Revised	2.64	1.51	1.41	1.80	2.15	1.91	2.06	1.95
February Preliminary	2.73	1.82	1.76	1.81	2.32	2.01	2.10	2.04
Difference	-0.09	-0.31	-0.35	-0.01	-0.17	-0.11	-0.04	-0.09
Implicit Price Deflator (Core), Percent change								
February Revised	2.16	2.09	2.17	2.25	2.04	2.28	2.29	2.21
February Preliminary	1.99	2.39	2.32	2.41	2.14	2.41	2.37	2.30
Difference	0.17	-0.30	-0.15	-0.16	-0.10	-0.13	-0.08	-0.09
Federal Funds Rate, Percent								
February Revised	3.98	4.43	4.75	4.75	4.67	4.75	4.81	5.00
February Preliminary	3.97	4.42	4.75	4.75	4.67	4.75	4.81	5.00
Difference	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Mortgage Rate, Percent								
February Revised	6.22	6.22	6.41	6.45	6.38	6.53	6.86	7.15
February Preliminary	6.23	6.53	6.69	6.72	6.67	6.80	6.94	7.15
Difference	-0.01	-0.31	-0.28	-0.27	-0.28	-0.27	-0.08	0.00
Washington Payroll Employment, Percent change								
February Revised	4.35	2.34	2.55	2.40	2.77	2.19	1.78	1.54
February Preliminary	4.07	2.39	2.49	2.37	2.72	2.17	1.78	1.58
Difference	0.27	-0.05	0.06	0.03	0.05	0.02	0.00	-0.04
Washington Real Personal Income, Percent change								
February Revised	0.92	4.71	5.06	13.22	4.90	4.62	4.23	4.35
February Preliminary	1.26	4.33	5.00	13.60	4.91	4.71	4.42	4.46
Difference	-0.34	0.38	0.06	-0.39	-0.01	-0.09	-0.19	-0.11
Washington Nominal Personal Income, Percent change								
February Revised	3.58	6.33	6.54	15.25	7.16	6.62	6.38	6.38
February Preliminary	4.05	6.23	6.84	15.66	7.36	6.82	6.61	6.59
Difference	-0.47	0.09	-0.30	-0.41	-0.19	-0.20	-0.23	-0.21
Washington Housing Permits, Thousands								
February Revised	58.1	53.2	51.6	51.2	51.7	49.9	47.4	45.7
February Preliminary	58.1	51.9	50.2	50.0	50.5	48.7	47.1	45.8
Difference	0.0	1.3	1.4	1.2	1.2	1.2	0.3	-0.1

Analysis for the Major Sources Based on Taxable Activity

Revenue Act Sources

February 2006 Baseline Forecast

Source/Fiscal	Percentage Change		Personal Income	
	Tax Base Adjusted*	Personal Income-1	Elasticity**	
I. Retail Sales				
	1988	8.0	7.3	1.1
	1989	10.9	9.7	1.1
	1990	13.7	10.5	1.3
	1991	5.7	8.9	0.6
	1992	6.6	6.6	1.0
	1993	4.2	6.9	0.6
	1994	6.3	4.3	1.4
	1995	4.7	5.8	0.8
	1996	3.6	5.8	0.6
	1997	7.2	8.0	0.9
	1998	7.3	8.1	0.9
	1999	7.1	7.8	0.9
	2000	7.4	8.8	0.8
	2001	3.1	3.9	0.8
	2002	-0.6	2.3	-0.3
	2003	2.3	1.7	1.4
	2004	5.2	3.6	1.4
	2005	7.9	5.1	1.6
	2006	7.6	6.8	1.1
	2007	4.6	7.1	0.7
	2008	5.9	6.4	0.9
	2009	5.5	6.4	0.9
II. Business & Occupation				
	1988	10.6	7.3	1.4
	1989	9.4	9.7	1.0
	1990	14.3	10.5	1.4
	1991	6.3	8.9	0.7
	1992	6.4	6.6	1.0
	1993	3.5	6.9	0.5
	1994	2.0	4.3	0.5
	1995	6.8	5.8	1.2
	1996	4.5	5.8	0.8
	1997	9.0	8.0	1.1
	1998	7.2	8.1	0.9
	1999	7.2	7.8	0.9
	2000	5.5	8.8	0.6
	2001	3.0	3.9	0.8
	2002	-3.4	2.3	-1.5
	2003	-2.4	1.7	-1.4
	2004	6.6	3.6	1.8
	2005	10.0	5.1	2.0
	2006	10.1	6.8	1.5
	2007	4.8	7.1	0.7
	2008	6.8	6.4	1.1
	2009	5.6	6.4	0.9

Analysis for the Major Sources Based on Taxable Activity

Revenue Act Sources

February 2006

*

Source/Fiscal	Percentage Change		Personal Income Elasticity**	
	Tax Base Adjusted*	Personal Income-1		
III. Use				
	1988	5.3	7.3	0.7
	1989	12.8	9.7	1.3
	1990	14.6	10.5	1.4
	1991	9.8	8.9	1.1
	1992	-0.9	6.6	-0.1
	1993	6.8	6.9	1.0
	1994	7.0	4.3	1.6
	1995	5.8	5.8	1.0
	1996	8.2	5.8	1.4
	1997	5.5	8.0	0.7
	1998	6.8	8.1	0.8
	1999	0.8	7.8	0.1
	2000	10.3	8.8	1.2
	2001	8.2	3.9	2.1
	2002	-8.2	2.3	-3.5
	2003	-7.8	1.7	-4.6
	2004	7.6	3.6	2.1
	2005	12.7	5.1	2.5
	2006	6.5	6.8	1.0
	2007	6.0	7.1	0.8
	2008	7.4	6.4	1.2
	2009	6.9	6.4	1.1

IV. Public Utility

1988	3.1
1989	0.7
1990	-1.3
1991	7.1
1992	0.0
1993	9.5
1994	13.6
1995	6.5
1996	1.4
1997	1.4
1998	4.1
1999	4.7
2000	7.2
2001	15.4
2002	0.5
2003	-2.0
2004	7.5
2005	6.8
2006	8.1
2007	2.8
2008	3.9
2009	5.2

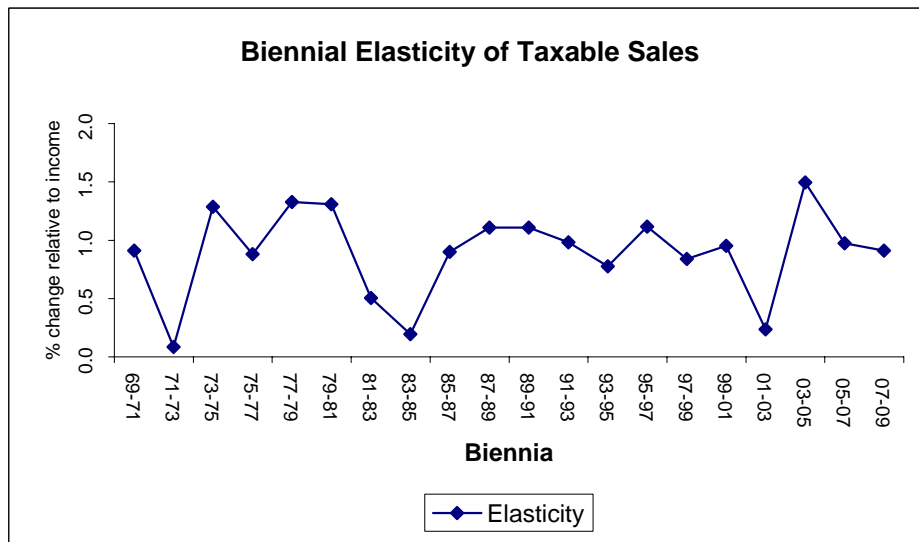
* Based on constant base taxable data.

** Percent changes in taxable activity relative to percent change in personal income.

1 Income adjusted to exclude special dividend payment in fy 05.

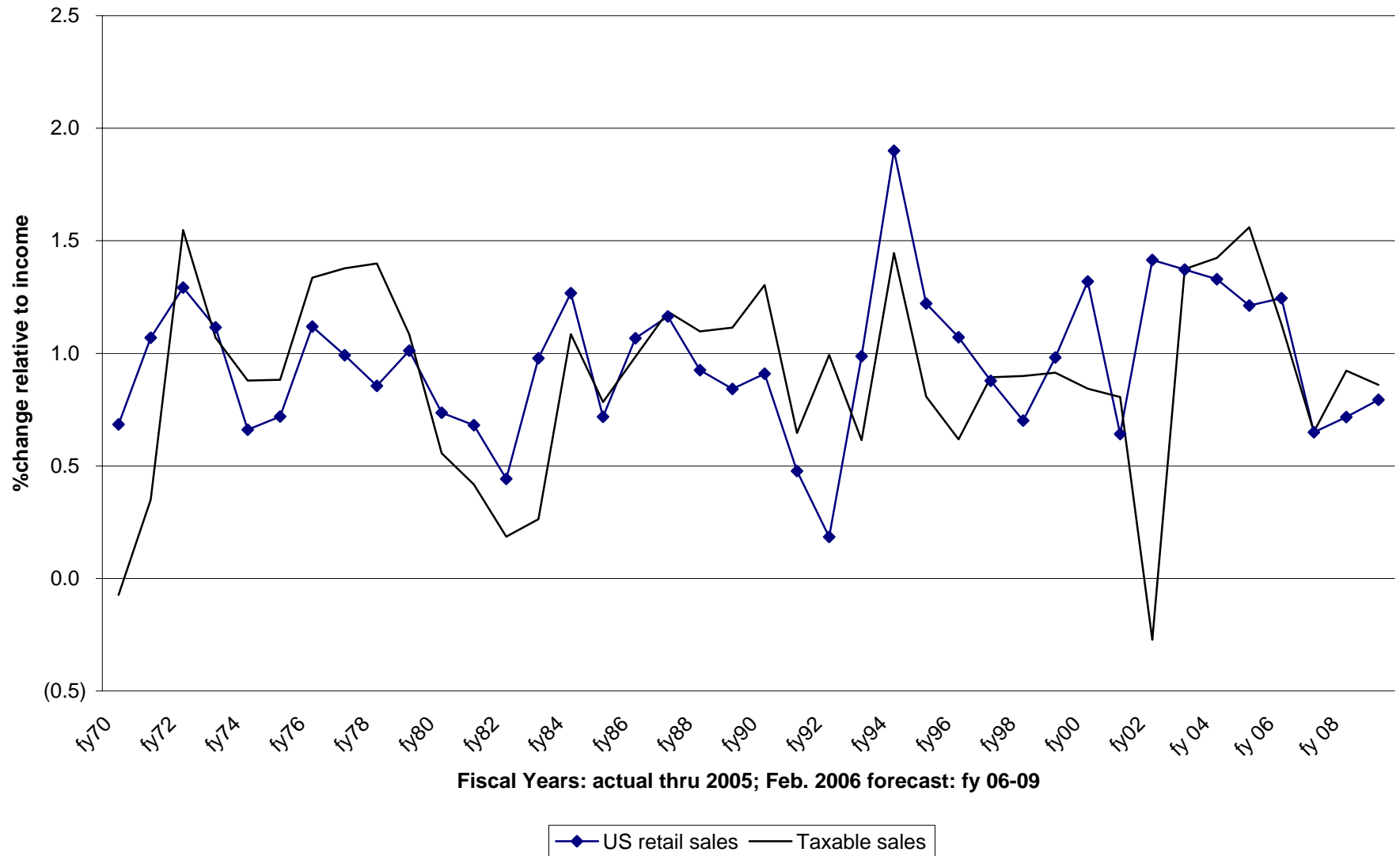
**Biennial Elasticity
Taxable Sales (adjusted)
February 2006 Forecast**

<u>Biennium</u>	<u>Elasticity</u>	<u>rank</u>
03-05:Est.	1.5	1
75-77	1.3	2
77-79	1.3	3
71-73	1.3	4
93-95	1.1	5
87-89	1.1	6
85-87	1.1	7
89-91	1.0	8
05-07:Est.	1.0	9
97-99	1.0	10
07-09:Est.	0.9	11
83-85	0.9	12
73-75	0.9	13
99-01	0.9	14
95-97	0.8	15
91-93	0.8	16
79-81	0.5	17
01-03	0.2	18
81-83	0.2	19
69-71	0.1	19

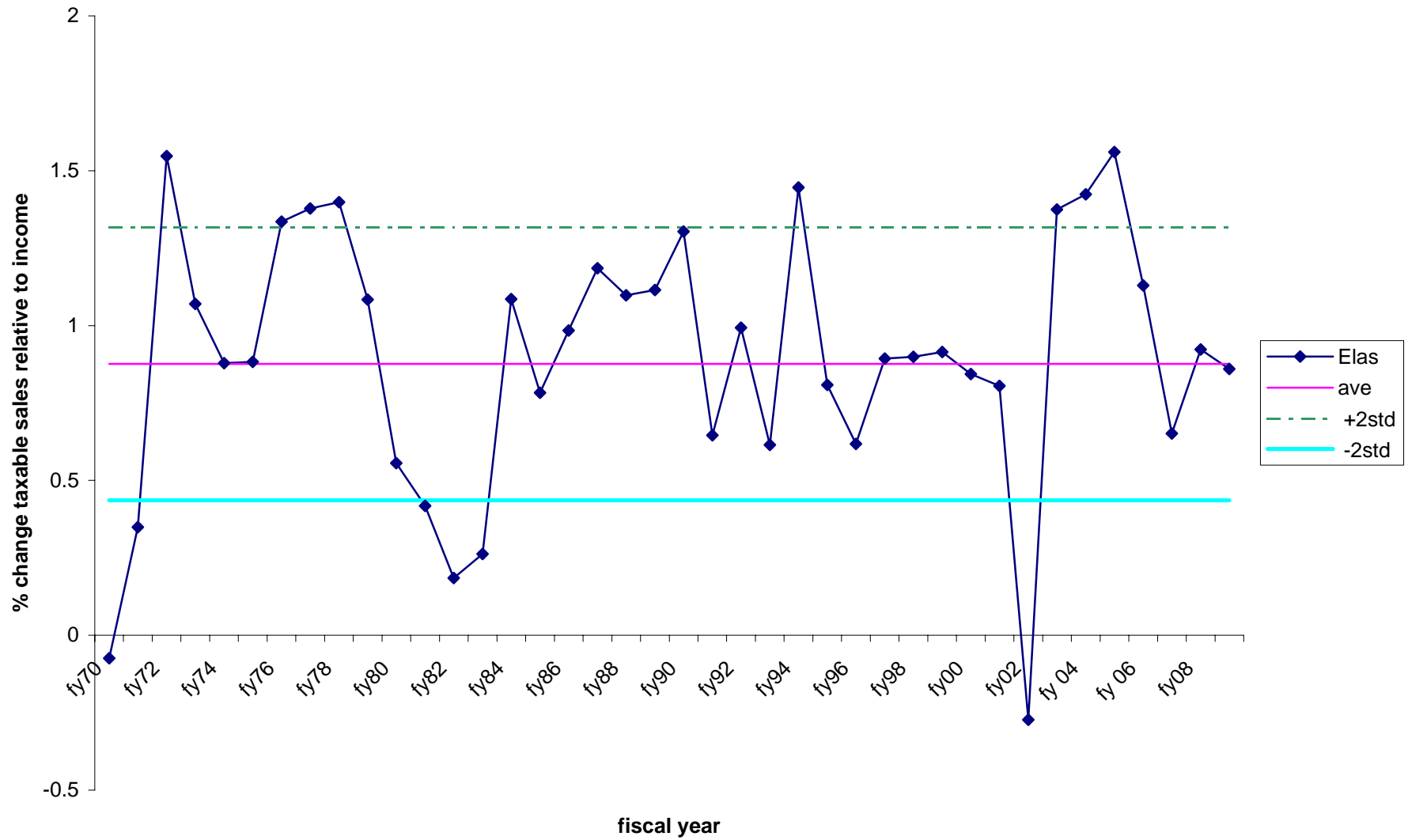


*Percent change taxable sales (adjusted for major base changes) relative to percent changes in income.
(Ave. of the elasticities of the fiscal years of the biennium. Based on the moving average of
state disposable personal income (adjusted for special Microsoft dividend.)

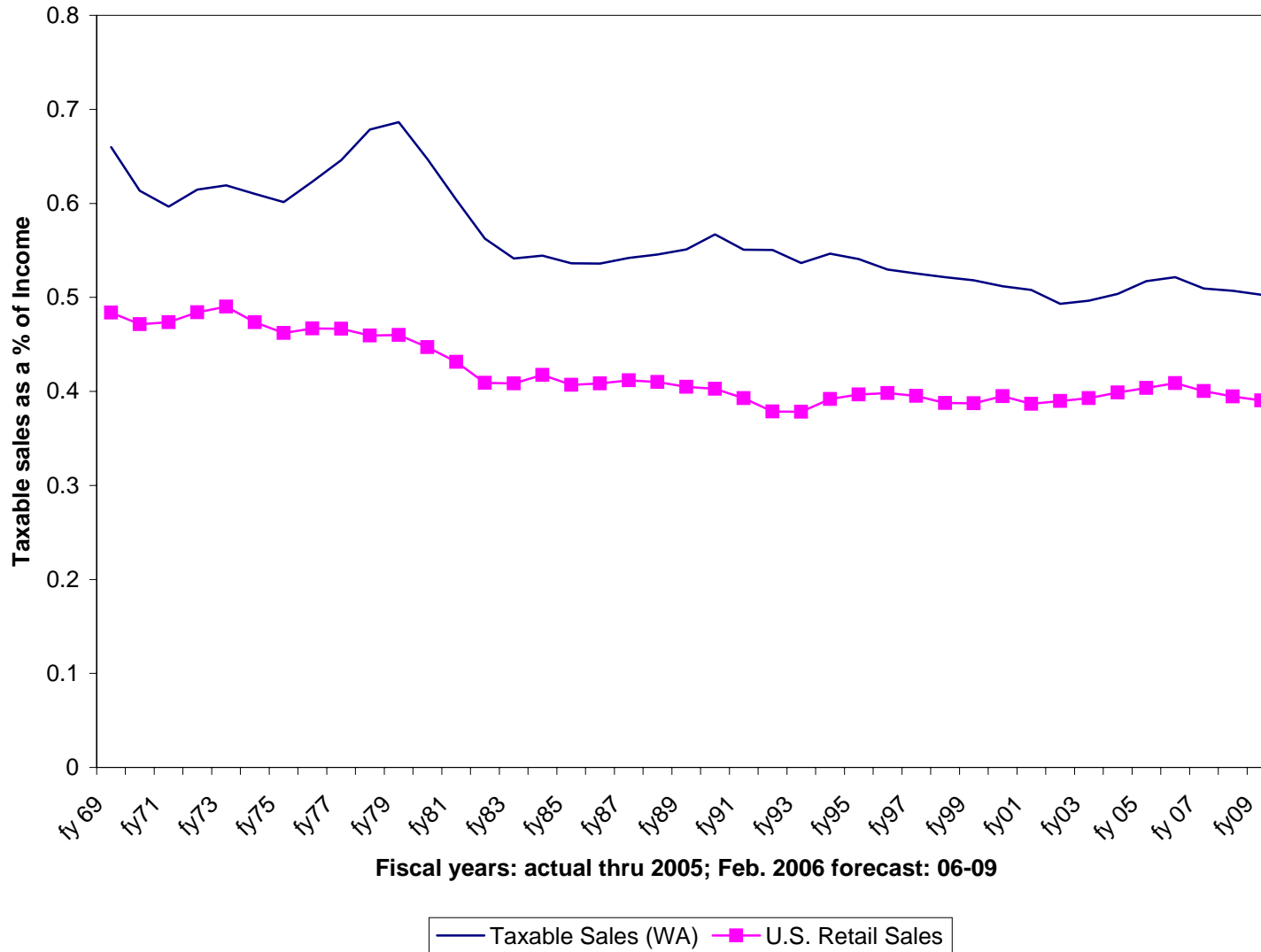
Elasticity: Taxable Sales (WA) and U.S. Retail Sales



%Change of Taxble Sales* Relative to Income

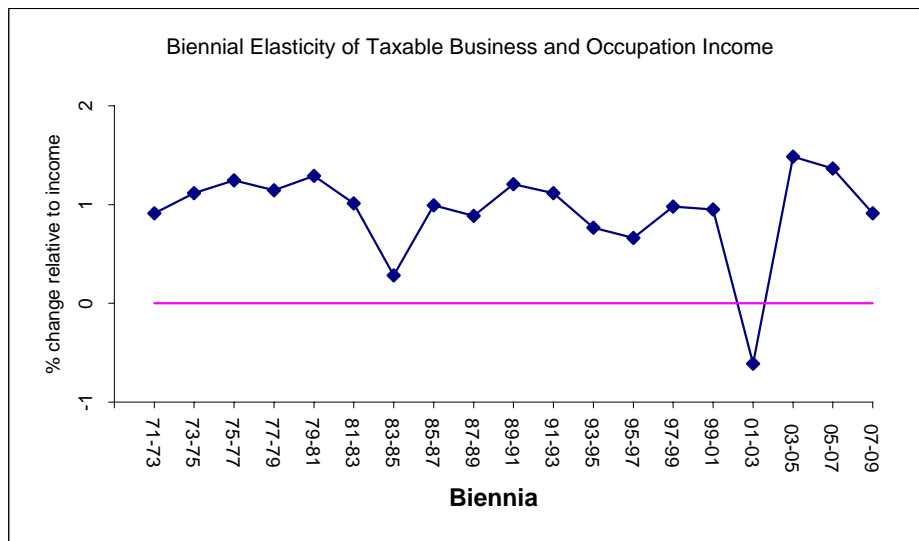


Taxable Sales (WA) and U.S. Retail Sales as a % of Income



Biennial Elasticity
Taxable Business and Occupation Income (adjusted)
February 2006 Forecast

<u>Biennium</u>	<u>Elasticity</u>	<u>rank</u>
03-05	1.5	1
05-07: Est.	1.4	2
77-79	1.3	3
73-75	1.2	4
87-89	1.2	5
75-77	1.1	6
71-73	1.1	7
89-91	1.1	8
79-81	1.0	9
83-85	1.0	10
95-97	1.0	11
97-99	1.0	12
07-09:Est.	0.9	13
85-87	0.9	14
91-93	0.8	15
99-01	0.7	16
93-95	0.7	17
81-83	0.3	18
01-03	(0.6)	18



General Fund-State

Biennial Growth

February 2006 Forecast

General Fund-State Collection Growth ¹			Adjusted Growth Major Taxes ²
Total GFS Current Dollars			2000 Chained Dollars
Biennia			
1971-73	10.9%		7.6%
1973-75	23.4%		8.7%
1975-77	43.1%		14.8%
1977-79	32.3%		23.6%
1979-81	19.3%		3.4%
1981-83	27.0%		-7.1%
1983-85	20.6%		3.4%
1985-87	16.7%		4.9%
1987-89	14.2%		9.9%
1989-91	21.7%		15.1%
1991-93	11.7%	10.3 *	4.5%
1993-95	11.5%	7.7 *	6.2%
1995-97	6.5%	10.6 *	6.0%
1997-99	11.2%	14.5 *	12.2%
1999-01	8.4%	12.0 *	7.6%
2001-03	-0.6%	1.9 *	-1.1%
2003-05	10.6%	10.3% *	8.6%
2005-07 ^F	13.1%	14.1% *	9.5%
2007-09 ^F	9.8%		7.0%

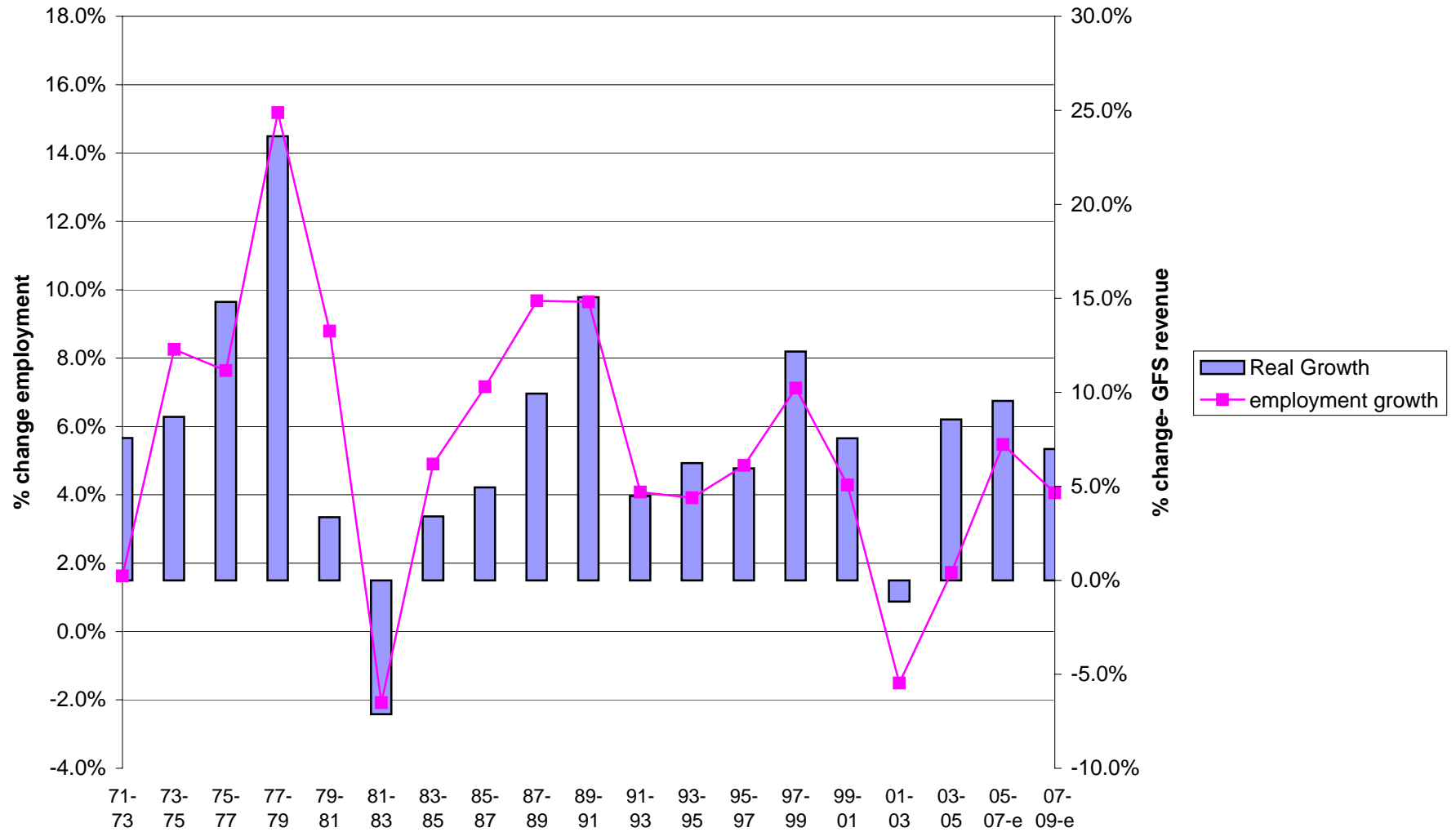
* Growth adjusted for major non-economic changes.

1 Actual growth in Total General Fund-State tax receipts includes growth due to changes in tax rates, the tax base as well as administrative and accounting changes. Represents growth of revenue available for appropriation. Growth is affected by factors other than economic performance, hence the growth rates may not be comparable among biennia.

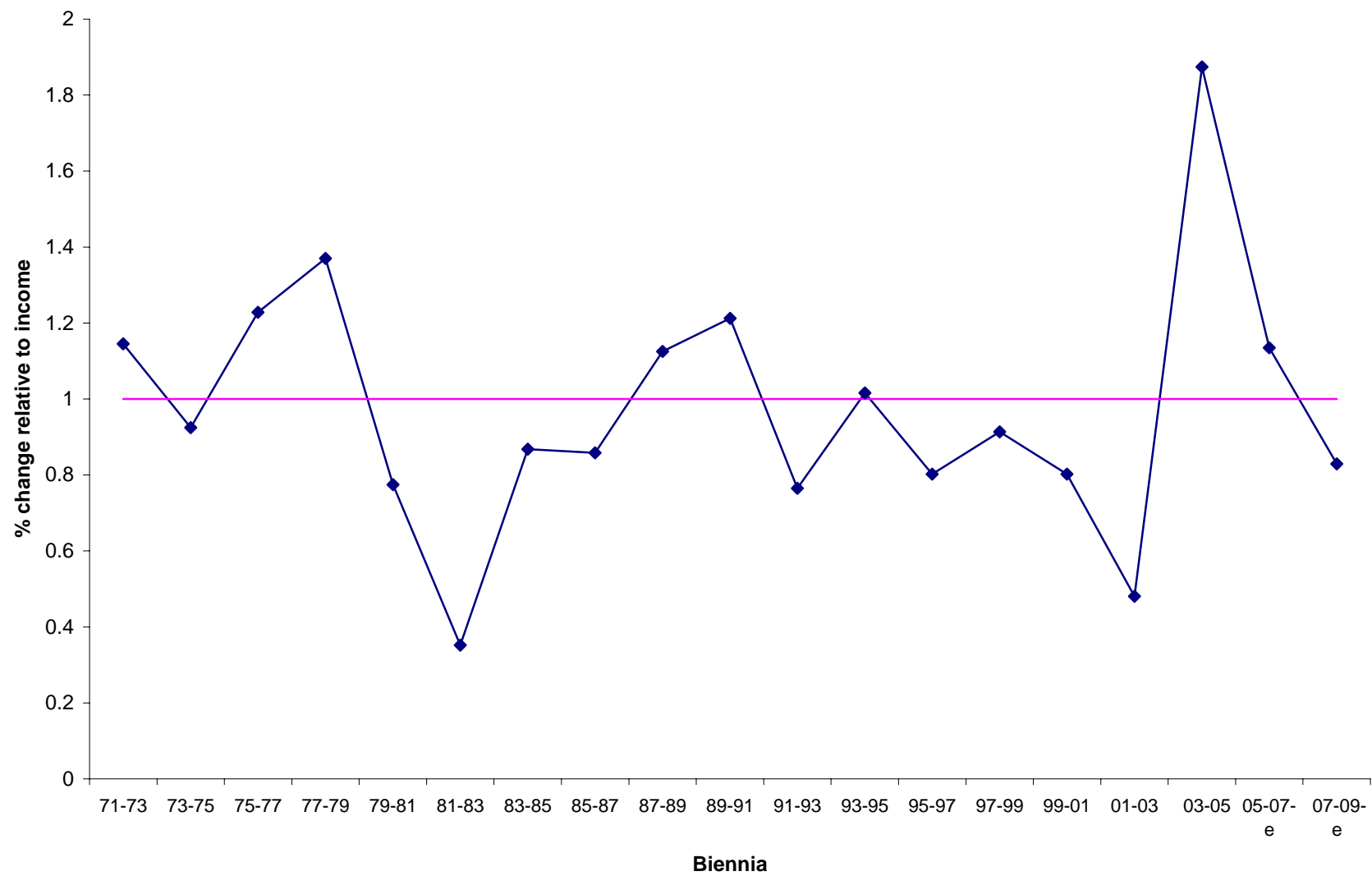
2 Estimated growth of six major taxes (sales, B&O, use, public utility, real estate excise, and property) on a tax liability basis, adjusted to a constant rate and base and adjusted for price changes. The growth rates in this column provide a measure of how revenue growth varies over time and with the economy.

F Forecast

Real Growth of the Taxbase of Major GFS Tax Biennia



Elasticity of Major GFS Taxes



Growth Rates of Major Excise Taxes and Economic Drivers

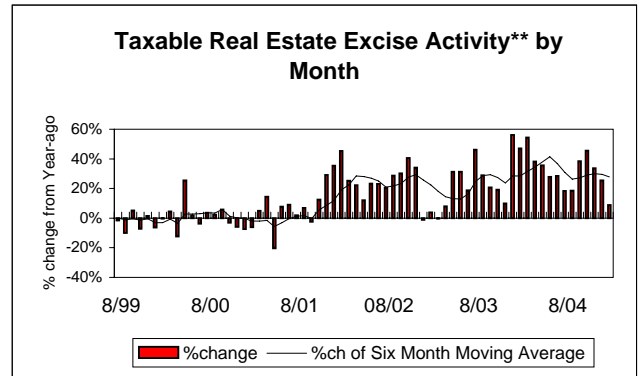
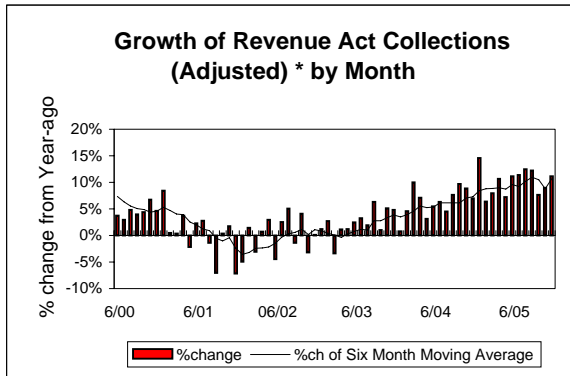
Percent Change from the Year-Ago Level

	Employment	Personal Income		Revenue Act*	
		Nominal	Real	Nominal	Real
1994:1	2.1	4.8	2.8	7.1	5.1
1994:2	2.0	4.7	2.8	5.0	3.1
1994:3	1.8	5.4	3.0	4.5	2.1
1994:4	2.5	5.6	3.3	6.7	4.3
1995:1	2.5	6.8	4.3	3.8	1.4
1995:2	2.3	5.2	2.8	5.8	3.3
1995:3	1.7	5.2	3.3	5.2	3.3
1995:4	0.9	4.1	2.2	1.3	-0.6
1996:1	1.8	6.4	4.2	5.4	3.3
1996:2	2.3	7.3	5.1	4.0	1.9
1996:3	3.2	8.0	5.8	6.1	3.9
1996:4	4.4	8.5	6.0	6.5	4.0
1997:1	3.9	8.0	5.7	8.8	6.5
1997:2	4.3	7.6	5.7	8.0	6.2
1997:3	4.1	7.0	5.3	7.8	6.1
1997:4	4.0	7.4	6.1	10.0	8.6
1998:1	3.7	8.8	7.9	3.7	2.8
1998:2	3.4	9.0	8.1	7.4	6.4
1998:3	3.1	9.8	8.8	6.6	5.7
1998:4	2.7	8.7	7.7	6.8	5.7
1999:1	2.4	7.4	6.2	7.6	6.4
1999:2	1.7	5.3	3.7	6.0	4.3
1999:3	2.0	6.6	4.6	6.8	4.9
1999:4	2.1	9.4	7.1	5.4	3.2
2000:1	2.6	10.0	7.1	9.1	6.3
2000:2	2.8	9.0	6.3	7.1	4.4
2000:3	2.2	5.9	3.4	5.5	3.0
2000:4	1.9	3.4	1.1	4.9	2.5
2001:1	0.9	1.1	-1.1	3.5	1.2
2001:2	0.0	5.1	2.7	0.4	-1.9
2001:3	-0.8	3.6	1.5	-1.9	-3.9
2001:4	-2.1	2.2	0.5	-1.3	-3.0
2002:1	-2.6	2.7	1.6	-2.6	-3.7
2002:2	-2.2	0.9	-0.4	-0.7	-1.9
2002:3	-1.3	2.3	0.8	1.1	-0.4
2002:4	-0.4	2.0	0.2	0.4	-1.4
2003:1	0.2	0.8	-1.5	-0.4	-2.6
2003:2	-0.0	1.7	-0.1	1.8	-0.0
2003:3	0.0	3.1	1.3	4.6	2.7
2003:4	0.4	2.6	0.8	3.5	1.7
2004:1	0.8	4.1	2.1	7.2	5.1
2004:2	1.7	4.7	1.9	7.1	4.3
2004:3	1.8	3.9	1.3	6.5	3.8
2004:4	2.3	6.1	3.0	8.9	5.7
2005:1	2.8	5.5	2.8	9.3	6.5
2005:2	2.7	4.7	2.1	9.5	6.8
2005:3	2.9	6.7	3.5	10.5	7.2
2005:4	3.2	6.6	3.5	9.8	6.6
2006:1	3.0	7.0	4.1	6.9	4.0
2006:2	2.9	6.8	4.4	5.8	3.4
2006:3	2.9	7.8	5.9	4.1	2.1
2006:4	2.4	7.0	5.3	4.6	2.9
2007:1	2.4	6.9	5.1	4.8	2.9
2007:2	2.2	6.7	4.7	5.1	3.2
2007:3	2.1	6.6	4.6	5.6	3.6
2007:4	2.0	6.3	4.2	5.9	3.8
2008:1	1.9	6.4	4.2	6.3	4.2
2008:2	1.8	6.3	4.2	6.6	4.4
2008:3	1.7	6.5	4.3	6.1	3.9
2008:4	1.7	6.4	4.2	5.7	3.6
2009:1	1.6	6.4	4.3	5.4	3.3
2009:2	1.5	6.3	4.3	5.2	3.2

* Based on Revenue Act tax liability (constant rate/base). Deflator for real growth is the personal consumption deflator. Revenue Act consists of the sales, use, B& O, and public utilities taxes.

Pattern of Monthly Growth in Major Revenue Sources

	Year-over-Year Percent Change	
	<u>Revenue Act*</u>	<u>Real Estate Excise Tax**</u>
Oct. 2004	9.7%	9.9%
Nov. 2004	8.9%	56.1%
Dec. 2004	7.0%	47.1%
Jan. 2005	14.6%	54.4%
Feb. 2005	6.4%	38.1%
March 2005	7.9%	35.6%
April 2005	10.7%	27.7%
May 2005	7.3%	28.4%
June 2005	11.1%	18.4%
July 2005	11.4%	18.5%
August 2005	12.5%	38.4%
Sept. 2005	12.2%	45.5%
Oct. 2005	7.7%	33.6%
Nov. 2005	9.0%	25.4%
Dec. 2005	11.1%	8.9%



* Major excise taxes (retail sales, business & occupation, use, public utility). Based on net collections, adjusted for new legislation and special factors. Based on activity period.

** Taxable real estate excise activity based on state real estate excise tax collected by the counties

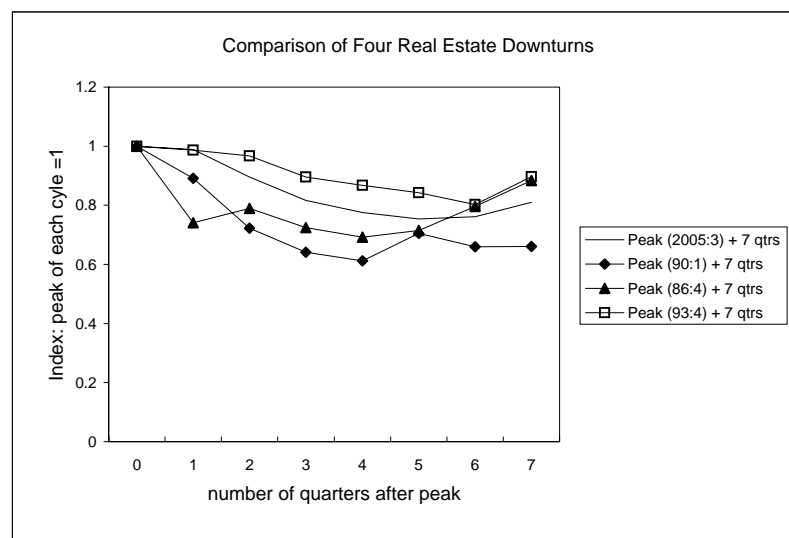
Downturns of the Real Estate Excise Taxbase in the Last 25 years

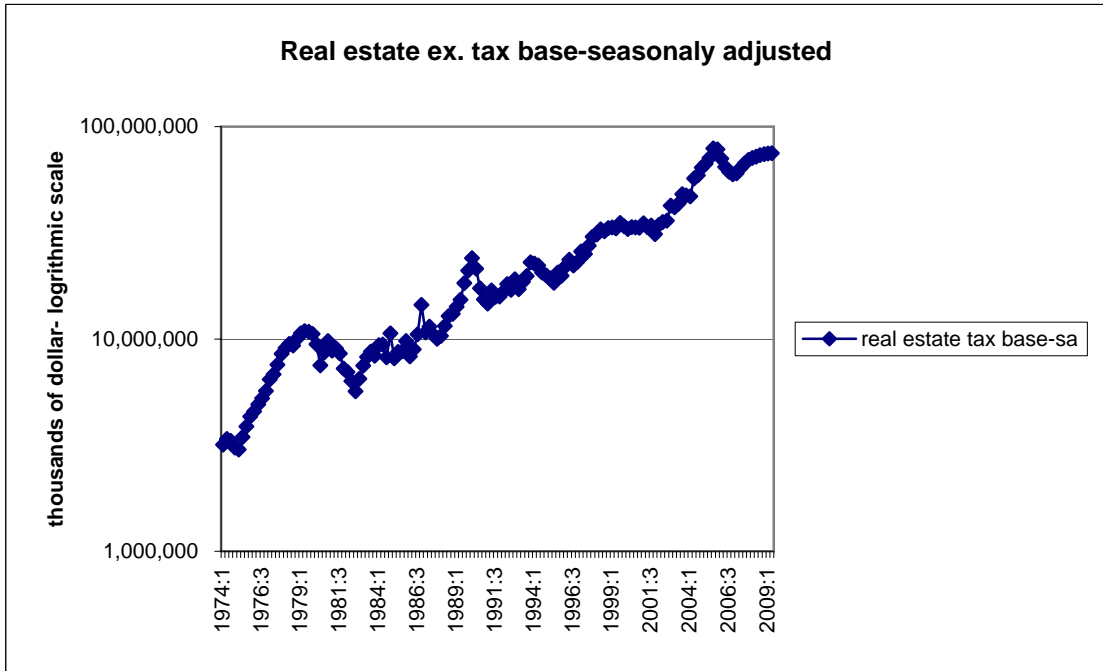
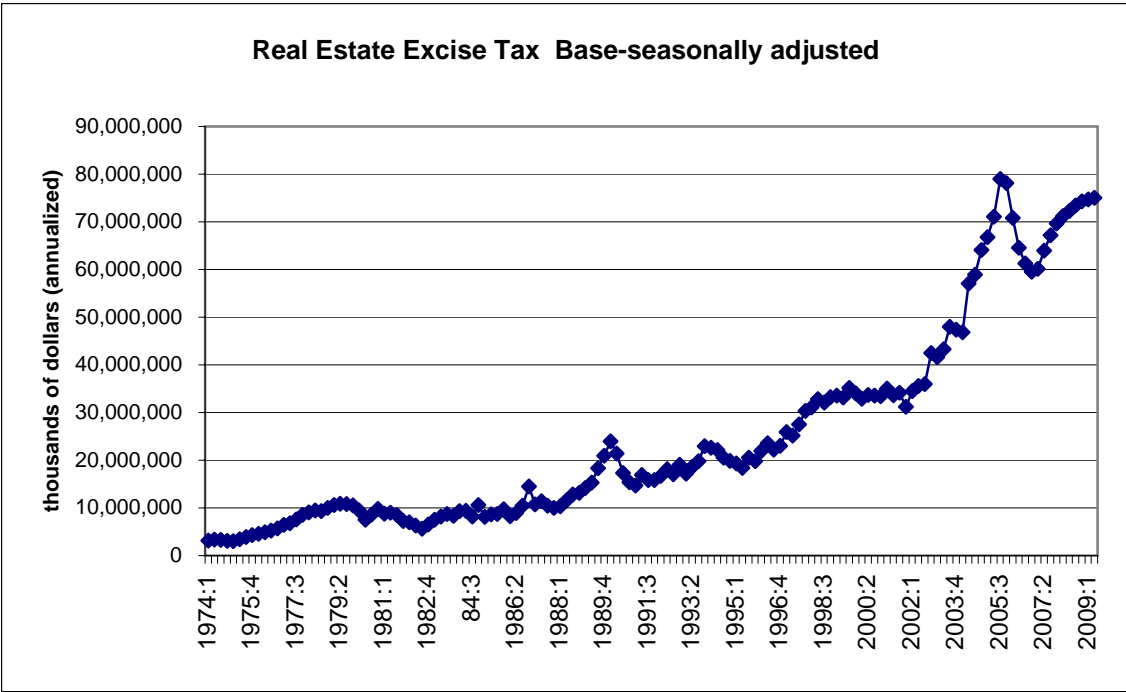
<u>Period</u>	<u>Decline of Taxbase</u>	<u>Number of Qtrs</u>	<u>Peak to Trough Difference in Mtg rate</u>
Peak: 1979:2 Trough: 1980:2	-31.0%	4	3.7
Peak: 1980:4 Trough: 1982:3	-42.1%	7	1.9
Peak: 1986:4 Trough: 1987:4**	-30.8%	4	1.2
Peak: 1990:1 Trough: 1991:1	-38.8%	4	(0.6)
Peak: 1993:4 Trough: 1995:2**	-19.8%	6	0.9
Peak: 1999:3 Trough: 2001:4	-11.3%	9	(1.0)
Average for all downturns	-29.0%	5.7	1.0
Ave.for non recession downturns**	-25.3%	5.0	1.0

February 2006 Forecast

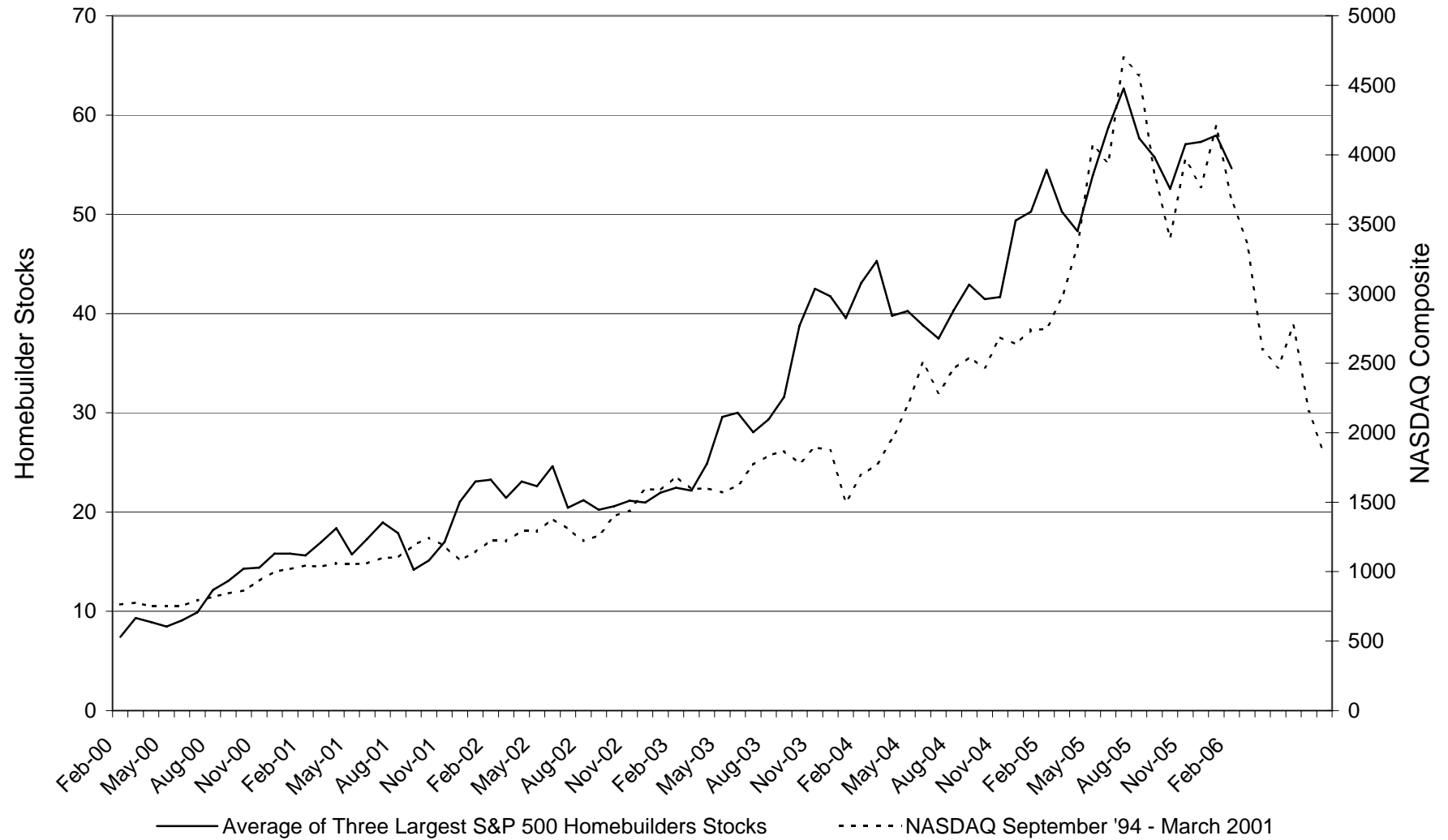
Peak: 2005:3 Trough: 2006:4	-24.6%	5	0.7
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**Non recession downturns





Housing Market Correction?



General Fund - State Cash Receipts
February 2006 Forecast by Fiscal Year
(Millions of Dollars)

	<u>General Fund - State</u>	<u>Percent Change</u>
Fiscal Years		
1986	\$4,566.2	
1987	5,008.4	9.7%
1988	5,248.1	4.8%
1989	5,686.0	8.3%
1990	6,505.4	14.4%
1991	6,803.5	4.6%
1992	7,297.6	7.3%
1993	7,564.6	3.7%
1994	8,013.4	5.9%
1995	8,551.3	6.7%
1996	8,581.2	0.3%
1997	9,056.6	5.5%
1998	9,640.9	6.5%
1999	9,979.2	3.5%
2000	10,433.2	4.5%
2001	10,828.9	3.8%
2002	10,450.7	-3.5%
2003	10,689.9	2.3%
2004	11,321.2	5.9%
2005	12,067.3	6.6%
Forecast		
2006	13,078.1	8.4%
2007	13,364.9	2.2%
2008	14,123.0	5.7%
2009	14,904.7	5.5%

February 2006 Baseline Forecast by Agency
Comparison of Cash and GAAP Basis
(Millions of dollars)

Agency	2003-05 Biennium			2005-07 Biennium			2007-09 Biennium		
	Cash Basis ¹	GAAP Basis ²	Diff.	Cash Basis ¹	GAAP Basis ²	Diff.	Cash Basis ¹	GAAP Basis ²	Diff.
General Fund - State Cash/Revenue Sources									
Department of Revenue ³	\$22,573.4	\$22,771.6	\$198.2	\$25,536.7	\$25,626.5	\$89.8	\$28,051.4	\$28,140.0	\$88.6
Department of Licensing	45.1	46.1	0.9	40.4	40.6	0.2	43.9	44.1	0.2
Insurance Commissioner ⁴	459.9	459.9	0.0	511.6	511.6	0.0	570.9	570.9	0.0
State Treasurer	50.7	52.1	1.4	133.2	134.8	1.6	128.7	127.9	(0.7)
Office of Financial Management									
Tuition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Agencies	211.4	211.4	0.0	217.4	217.6	0.1	224.6	224.7	0.1
Subtotal: General Fund-State Cash/Revenue⁵	23,340.6	23,541.1	200.5	26,439.4	26,531.1	91.7	29,019.4	29,107.7	88.3
General Fund State - Other Financing Sources⁶									
Department of Revenue ⁷	147.0	152.5	5.5	117.1	118.2	1.1	128.4	128.8	0.4
Lottery Commission	4.3	6.1	1.9	1.9	0.0	(1.9)	0.0	0.0	0.0
Insurance Commissioner ⁸	(14.3)	(14.3)	0.0	(15.7)	(15.7)	0.0	(17.4)	(17.4)	0.0
Liquor Control Board	92.0	92.0	0.0	99.5	99.5	0.0	112.9	112.9	0.0
Office of Financial Management									
Other Agencies ⁸	(181.0)	(181.0)	0.0	(199.0)	(199.0)	0.0	(215.6)	(215.6)	(0.0)
Subtotal: GFS Other Financing Sources	47.9	55.3	7.4	3.7	2.9	(0.7)	8.3	8.7	0.4
Total Available Receipts/Resources									
General Fund-State *	\$23,388.5	\$23,596.4	\$207.9	\$26,443.0	\$26,534.1	\$91.0	\$29,027.7	\$29,116.4	\$88.7

* Detail may not add due to rounding.

1 General Fund-State cash receipts forecast.

2 General Fund-State Revenue Forecast on a GAAP (Generally accepted accounting principles) basis, used to show the state revenue position for financial reporting purposes.

3 Excludes the state share of the timber tax and unclaimed property transfers.

4 Total insurance premiums tax.

5 Other financing sources represent transfers to/from other funds from/to the General Fund.

6 Includes the state share of the timber excise tax and unclaimed property transfers.

7 Portion of fire insurance premiums transferred out of the General Fund

8 Agency 701 and accounting sources: 480 and 481 for all other agencies.

General Fund-State Cash Forecast
Summary of February 2006 Changes to GFS Forecast
2005-07 Biennium
Millions of Dollars

	Collection Experience: Nov. 11 - Feb. 10, 2006			Remainder of the Biennium (1/11/2006 - 6/30/07)		Total Change 2005-07 Biennium
	<u>Actual Variance*</u>	<u>Special Factors-1</u>	<u>Variance Excluding Special Factors</u>	<u>Forecast Change</u>	<u>Other-2</u>	
Revenue Act**	\$62.1	21.4	\$40.7	21.3	(51.6)	\$31.8
Non Revenue Act	\$13.9	0.0	\$13.9	40.5		\$54.3
Property tax	\$0.6		\$0.6	(3.1)		(\$2.5)
Real estate ex. tax	\$15.6		\$15.6	36.3		\$51.9
Cigarette	\$0.2		\$0.2	2.3		\$2.5
other	(\$2.6)	0.0	(\$2.6)	5.0		\$2.4
Department of Revenue Subtotal	\$76.0	\$21.4	\$54.6	\$61.7	(\$51.6)	\$86.1
Department of Licensing	\$0.0		\$0.0	(\$0.1)		(\$0.1)
Lottery	0.0		\$0.0	\$0.0		\$0.0
All other	#N/A		#N/A	\$21.3		21.3
Total General Fund-State	<u>\$76.0</u>	<u>\$21.4</u>	<u>\$54.6</u>	<u>\$82.9</u>	<u>(\$51.6)</u>	<u>\$107.3</u>

*Variance since the last (November 2005) forecast (November 11 -Feb. 10, 2006.)

**Retail sales, business & occupation, use, public utilities and tobacco products taxes and penalties & interest.

1-Unusually large audit payments.

2-Sales tax reduction for the insurance industry (including refunds).

General Fund-State and Near General Fund
History/Forecast by Fiscal Year
February 2006 - Millions of Dollars

	General Fund-State		Near General Fund		GFS and Near GFS	
	Level	% Change	Level	% Change	Level	% Change
fiscal 1995	8,551.3		247.2		8,798.5	
fiscal 1996	8,581.2	0.3%	352.5	42.6%	8,933.7	1.5%
fiscal 1997	9,056.6	5.5%	392.7	11.4%	9,449.3	5.8%
fiscal 1998	9,640.9	6.5%	413.5	5.3%	10,054.4	6.4%
fiscal 1999	9,979.2	3.5%	430.0	4.0%	10,409.2	3.5%
fiscal 2000	10,433.2	4.5%	418.9	-2.6%	10,852.0	4.3%
fiscal 2001	10,828.9	3.8%	442.2	5.6%	11,271.1	3.9%
fiscal 2002	10,450.7	-3.5%	706.7	59.8%	11,157.5	-1.0%
fiscal 2003	10,689.9	2.3%	779.9	10.4%	11,469.9	2.8%
fiscal 2004	11,321.2	5.9%	841.7	7.9%	12,162.9	6.0%
fiscal 2005	12,067.3	6.6%	807.6	-4.1%	12,874.9	5.9%
fiscal 2006	13,078.1	8.4%	921.3	14.1%	13,999.5	8.7%
fiscal 2007	13,364.9	2.2%	1,005.2	9.1%	14,370.1	2.6%
fiscal 2008	14,123.0	5.7%	1,094.4	8.9%	15,217.3	5.9%
fiscal 2009	14,904.7	5.5%	1,130.7	3.3%	16,035.4	5.4%

General Fund-State And Near General Fund-State
February 2006 and November 2005 Forecast
2005-07 & 2007-09 Biennia
Millions of dollars

	2005-07 Biennium			2007-09 Biennium			Change From 2005-07	
	<u>Nov. 2005 Forecast</u>	<u>Feb. 2006 Forecast</u>	<u>Difference</u>	<u>Nov. 2005 Forecast</u>	<u>Feb. 2006 Forecast</u>	<u>Difference</u>	<u>Amount</u>	<u>Percent</u>
General Fund-State	\$ 26,335.7	\$ 26,443.0	\$ 107.3	NA	\$ 29,027.7	NA	\$2,584.7	9.8%
Near General Fund*								
Health Services Account	970.7	986.5	15.8	NA	1,022.4	NA	35.9	3.6%
Violence Reduction and Drug Enforce.Acct.	90.7	92.3	1.6	NA	92.7	NA	0.3	0.4%
Water Quality Account	42.7	44.0	1.2	NA	43.4	NA	(0.6)	-1.4%
Student Achievement Account	630.2	630.5	0.3	NA	875.8	NA	245.3	38.9%
Public Safety and Education Account	177.5	173.1	(4.4)	NA	190.7	NA	17.6	10.2%
Total Near GF	1,911.9	1,926.5	14.6	NA	2,225.0	NA	298.5	15.5%
Total GF and Near GF	\$ 28,247.6	\$ 28,369.5	\$ 122.0	NA	\$ 31,252.7	NA	2,883.2	10.2%

*Cash forecast; includes interest earnings.